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SUBJ: DOC CLEAN ENERGY ROUNDTABLE SEEKS RENEWABLE ENERGY OPPORTUNITIES, HIGHLIGHTS OBSTACLES

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¶11. (SBU) Summary. Stephen Jacobs, Acting Assistant Secretary for Market Access and Compliance, led an interagency and private sector delegation to Jakarta for a Clean Energy Policy Roundtable and government meetings July 27-29. Government meetings focused on policy obstacles to developing renewable energy. Indonesia may lift the investment restriction on power generation under 10 MW. Power sector tendering and pricing issues remain problems to investors. Bilateral financing facilities would help companies enter the market. End Summary.

¶12. (U) More than 100 participants attended the Department of Commerce's Clean Energy Policy Roundtable, held on July 28. Three panels, composed of U.S. and Indonesian officials and private sector representatives, discussed Indonesia's policy goals, technical capabilities, and the state of the industry. The panels focused on geothermal energy, other renewable energy, and financing renewable energy projects.

¶13. (U) In subsequent government-to-government meetings, AA/S Jacobs met with Minister of Energy and Mineral Resources Purnomo Yusgiantoro; Ministry of Energy staff; Rudiantara and Yogo Pratomo of Indonesia Electricity Corporation (PLN); and Bacelius Ruru, Executive Secretary of the National Team for the Advancement for Export and Investment (PEPI). AA/S Jacobs' meetings focused on the primary obstacles to developing renewable energy, including Indonesia's investment restriction on power generation under 10 MW, problems with the public tendering process, and difficulties negotiating power purchase agreements (PPA) for independent power producers (IPP). Indonesian officials also welcomed the inclusion of renewable energy under the bilateral Energy Policy Dialogue, and were receptive to cooperation such as Methane to Markets and the International Partnership for Geothermal Technology.

10 MW Investment Restriction May Be Lifted

¶14. (SBU) Bacelius Ruru stated that PEPI had already formally recommended that the President remove the investment restriction on power generation under 10 MW. Ruru acknowledged that the intended aim of the investment restriction - to stimulate small and medium sized enterprise investment in the power sector - had not happened. The Ministry of Energy and Mineral Resources recognized that foreign investors were necessary to develop renewable energy and had

proposed the regulatory change.

¶15. (SBU) Ruru cautioned that problems remain, because the newly proposed regulatory language only refers to a "partnership" between a large investor and an Indonesian small or medium-sized company. It does not contain a clear definition of a joint venture or equity levels so the new rule may not provide sufficient clarity. AA/S Jacobs stressed that a rule without clarity does not provide a better investment climate.

Tendering Process Remains a Concern

¶16. (U) The tendering process remains a particular concern to foreign companies operating in Indonesia. Under Indonesian law, local governments must tender identified renewable energy resources. However, local governments rarely have the capacity to manage the process or evaluate credible bids, so these tenders often pick winners who are not able to go forward with a project. PLN, as the monopoly purchaser of electricity, is under no obligation to accept the electricity price from the tendering company's winning bid. In many cases, winning companies must negotiate for business licenses or PPAs for years after winning a renewable energy project bid.

¶17. (U) Geothermal Director Sugiharto stressed that the primary goal of the tendering law was transparency, which he believed the current process achieves. However, PLN Vice President Rudiantara agreed that capacity building programs that help facilitate local government tenders would be helpful. They also mentioned that a commercial law development program might also help build capacity to run tenders, and AA/S Jacobs agreed to look into Commerce Department programs.

Electricity Pricing Also an Obstacle

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¶18. (U) The Indonesian subsidized electricity market limits the viability of renewable energy projects by constraining the prices that PLN can pay for electricity. PLN operates at a deficit, which the Indonesian government must then reimburse as a subsidy, amounting to \$8 billion in 2008. Each PPA must be approved by PLN, the Ministry of Energy, and the Ministry of Finance, and the overlapping authorities delay PPA approval even when prices are reasonable for the Indonesian market.

¶19. (SBU) Renewable energy IPPs often require prices of \$0.07 per kilowatt hour or more. Coal IPPs typically sign contracts for around \$.045 per kilowatt hour (kWh). The price differential makes it difficult to justify to the Ministry of Finance. Rudiantara cited one renewable energy tender in which the winning bid required \$0.17 per kWh. Despite being below PLN's operating cost for the region, PLN could not conclude a PPA at that price, because it was so far above the rates that it usually pays to IPPs. PLN would like to publicize ceiling prices for renewable energy, but Rudiantara acknowledged that even this step would not make it easier to approve projects whose price tags came in under the ceiling but above competing energies.

Financing Facility Would Help

¶110. (SBU) PLN officials stated that financing facilities, such as through ExIm or OPIC, could help address some of the pricing and risk obstacles between PLN and potential IPPs. They cited an Indonesian-Japanese Umbrella Note of Mutual Understanding that provides letters of comfort to Japanese IPPs to reduce the risk premium on financing. Rudiantara indicated that Indonesia is negotiating a similar agreement with China. Indonesia will not offer sovereign guarantees to IPPs, he said.

Energy Efficiency Is an Opportunity

¶111. (U) Energy efficiency offers potential benefits, according to

Minister Purnomo. He noted that Indonesian policy historically emphasized maximizing supply of all energy and minimizing the cost to the consumer. Indonesian officials have only begun to consider demand-side management. There are currently no incentives for efficiency, but Purnomo welcomed companies to develop the sector. Subsidized fuel and electricity limits efficiency's appeal to the private sector, but the government would welcome innovations that would reduce its costs.

¶12. (U) This cable has been cleared by the Office of the Pacific Basin at the International Trade Administration.

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